



United States  
Department of  
Agriculture

Farmers  
Home  
Administration

Washington  
D.C.  
20250

FmHA AN No. 2482 (1951)  
February 27, 1992

SUBJECT: Common Servicing Deficiencies Noted in Sample Review  
of Entity Borrowers That Received Writedown or  
Writeoff

TO: State Directors, District Directors, and County  
Supervisors

PURPOSE/INTENDED OUTCOME:

The purpose of this AN is to alert field personnel of the subject deficiencies. The intended outcome of this notice is that all future loan servicing to entity borrowers, under FmHA Instruction 1951-S, will be processed accurately and in accordance with the regulation.

COMPARISON WITH PREVIOUS AN:

There has been no previous AN on this subject. This AN is being issued as a result of the Government Accounting Office (GAO) Audit of Entity Borrower Servicing.

IMPLEMENTATION RESPONSIBILITIES:

The GAO conducted an audit on a sample of all entity borrowers that received either a writedown or a writeoff in connection with 1951-S loan servicing. Deficiencies were noted and remedial recommendations were made to Farmers Home Administration (FmHA) by GAO. The National Office made a review of a sampling of cases to determine the nature of deficiencies and to facilitate accuracy in responding to GAO's recommendations.

The following deficiencies were noted. The percent figures represent the degree of non compliance in the sample:

1. Individual financial statements from entity members were not included in the application. 47 percent
2. Non FmHA debts were not verified and/or were not included correctly in DALR\$. 42 percent
3. ASCS payments and other farm income were not verified. 42 percent

EXPIRATION DATE: September 30, 1992

FILING INSTRUCTIONS:  
Preceding FmHA  
Instructions 1951-S



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4. Projected expense, production, and/or commodity price figures did not reflect historic trends and/or State guidelines and no justification was provided. 39 percent
5. The constants used in DALR\$ were incorrect. 36 percent
6. The security priority of FmHA loans was not classified correctly. 33 percent
7. Loan principal and interest figures were incorrectly transferred to DALR\$ from the AI or DL screen. 28 percent
8. Appraisal used to establish net recovery value was over a year old, or there was no appraisal in the file. 25 percent
9. Year after deferral plan was not developed. 25 percent
10. Entity financial statement did not accurately include all debts. 22 percent
11. Chattel security was not released or otherwise accounted for on Form FmHA 1962-1. 22 percent
12. A copy of the lien instrument securing the Net Recovery Buyout Recapture Agreement was not properly prepared or was not in the file. 19 percent
13. Appraisal lacked adequate documentation to justify the appraised value. 17 percent
14. Security value on DALR\$ did not match the appraised value. 17 percent
15. New rates and/or terms for existing FmHA loans were not correct in DALR\$. 17 percent
16. There was greater than a 5 percent difference between the capitalization value and the market value on the real estate appraisal. 17 percent
17. Prior lienholder debt was incorrectly transferred from Form FmHA 440-32 to the Farm and Home Plan and then to DALR\$. 14 percent


18. Original rates and/or terms for existing FmHA loans were not correct in DALR\$. 11 percent

19. The balance available was not transferred to DALR\$ correctly. 11 percent

20. Farm and Home Plan used for DALR\$ was not current or there were math errors. 6 percent

Prior to closing a debt restructuring or a net recovery buyout, servicing officials must review the above list of deficiencies in conjunction with any other checklist used for this purpose. Deficiencies found, as noted above, will be corrected before the closing. This is by no means a complete list. Servicing officials are encouraged to carefully review every case to be certain that the Government's financial interests are protected, at the same time providing eligible borrowers all servicing options to which they are entitled.

If you have any questions, please contact Charles W. Thompson, Farmer Programs Loan Servicing and Property Management Division, at 690-4011.



LA VERNE AUSMAN  
Administrator